

**ENBRIDGE PIPELINES (FSP) L.L.C.**

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**ILLINOIS COMMERCE COMMISSION**

**DOCKET NO. 12-0347**

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**TESTIMONY OF**

**JOHN C. FELMY**

**CHIEF ECONOMIST**

**AMERICAN PETROLEUM INSTITUTE**

**July 3, 2012**

**TESTIMONY OF**

**JOHN C. FELMY**

**CHIEF ECONOMIST**

**AMERICAN PETROLEUM INSTITUTE**

1 Q. PLEASE STATE YOUR NAME, PRESENT POSITION, AND BUSINESS ADDRESS.

2 A. My name is John C. Felmy. I am Chief Economist for the American Petroleum Institute  
3 (API). My business address is 1220 L Street, N.W., Washington, D.C. 20005.

4 Q. ARE YOU THE SAME JOHN C. FELMY THAT SUBMITTED TESTIMONY AND  
5 APPEARED TO TESTIFY IN THE COMMISSION'S DOCKET NO. 07-0446?

6 A. I am.

7 Q. ARE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND AND YOUR  
8 DUTIES AS CHIEF ECONOMIST FOR API THE SAME AS DESCRIBED IN YOUR  
9 TESTIMONY IN DOCKET NO. 07-0446?

10 A. My duties as Chief Economist are the same. I am also now responsible for the Institute's  
11 Weekly and Monthly statistics.

12 Q. DO YOU ADOPT YOUR PREPARED TESTIMONY IN DOCKET NO. 07-0446 AS  
13 PART OF YOUR TESTIMONY IN THIS PROCEEDING?

14 A. I do. The information provided therein on my background and duties as Chief Economist  
15 and about the purposes and operations of API remain valid and correct.

16 Q. ARE THE FACTUAL ASSERTIONS AND THE OPINIONS YOU EXPRESSED IN  
17 YOUR TESTIMONY IN DOCKET NO. 07-0446 STILL VALID AND ARE THEY  
18 PERTINENT TO THIS PROCEEDING?

19 A. I believe they are and in the interest of efficiency I incorporate them into this testimony.  
20 I am attaching a copy of my 2008 testimony in Docket No. 07-0446, which was admitted  
21 as API Ex. 1 in that case, as Attachment A to this testimony and adopt it as part of my  
22 testimony herein.

23 Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

24 A. While API continues to believe that new pipeline infrastructure to transport Canadian  
25 crude oil into the United States is important, for all the reasons I discussed in 2008, API  
26 also believes that the construction and operation of the Flanagan South Pipeline Project,  
27 as proposed and described by Enbridge Pipelines (FSP) L.L.C. (Enbridge) in its  
28 Application now before the Commission, is vital to the public need in Illinois and the  
29 nation for a secure and adequate pipeline system and will be beneficial to the  
30 petroleum-using public in Illinois, the Midwest, and the nation. Thus the purpose of this  
31 testimony is to focus specifically on the proposed Flanagan South Pipeline, or "FSP."

32 Q. ARE THERE REASONS BEYOND THOSE EXPRESSED IN YOUR 2008  
33 TESTIMONY WHY API SUPPORTS ENBRIDGE'S FSP PROJECT?

34 A. In the hearings in Docket 07-0446, I explained that it is essential to the national interest  
35 in energy security to have a crude oil pipeline transmission infrastructure that is "robust,  
36 reliable, and redundant," by which I meant that the pipeline network should offer  
37 substantial capacity linked to growing production sources and capable of expansion and  
38 extension as needed, *i.e.*, be "robust;" should be designed, engineered, and constructed to  
39 the most modern standards, *i.e.*, be "reliable;" and should afford both shippers and  
40 carriers options and alternatives in the transportation of crude oil by which supply  
41 interruptions can be avoided or minimized, *i.e.*, be "redundant." Enbridge's FSP project  
42 achieves those objectives by increasing transport capacity from western Canadian  
43 production fields and from the Williston Basin, via system interconnections; by  
44 emplacing hundreds of miles of new, high-grade pipeline as well as modern pumps and  
45 other appurtenances needed to carry crude oil; and by creating an expanded pathway to  
46 the Cushing Hub for crude moving south to American markets, particularly the Gulf  
47 Coast refining area of PADD III. Given the growing potential for disruptions of  
48 off-shore supplies due to unrest and political tensions in much of the Middle East, most  
49 notably involving Iran and threats to shutdown the Straits of Hormuz, obtaining the  
50 benefits offered by the infrastructure enhancements of FSP is increasingly important.  
51 Completion of FSP on schedule will clearly contribute to the national effort to increase  
52 our energy-supply security and reduce dependence on non-secure, potentially unstable  
53 sources and regimes. It is also significant that because of the planned utilization of  
54 existing Enbridge System pipeline facilities and right-of-way corridors, FSP's capacity

55 could well be available in the near future, perhaps ahead of other lines such as the  
56 Keystone XL proposal. Moreover, the construction of FSP will increase competition  
57 within the common carrier pipeline transport industry, thereby benefitting producers and  
58 refineries and ultimately consumers. Expanding the competitive potential of any industry  
59 is always a positive contribution to social and economic well-being.

60 Q. YOU REFERENCE THE KEYSTONE XL PROJECT: IS THERE A "NEED" FOR  
61 BOTH IT AND FSP?

62 A. There is for all the reasons I just discussed. API is not endorsing either proposal over the  
63 other, nor am I in this testimony. It is not for API or this Commission to pick winners  
64 and losers in a competitive market; that is a function for the market place. The issue here  
65 is whether the FSP Project advances the nation's economic and security interests, which it  
66 clearly does.

67 Q. HOW WILL THE CONSTRUCTION AND OPERATION OF FSP BENEFIT  
68 ILLINOIS?

69 A. Illinois' economy and its petroleum-consuming public are part of the national economy  
70 and society, as well as of the broader world economy and petroleum market. All of the  
71 benefits I just discussed, as well as those described in my 2008 testimony, will accrue to  
72 Illinois and its citizens, just as the Commission recognized in Docket No. 07-0446.  
73 Illinois is not and cannot be an isolated economy nor are its interests purely the parochial  
74 concerns of those immediately affected by the pipeline project. Nonetheless, I suggest  
75 that Illinois stands to benefit substantially from the FSP. Given the almost billion-dollar  
76 level of investment Enbridge will make in Illinois to install the new pipeline and pump

77 stations, it is reasonable to expect that numerous construction-related jobs will be created  
78 in Illinois by the project and that local economies along the pipeline route will see  
79 substantial spin-off expenditure during the construction process. Looking at the issue  
80 more broadly, it is also the fact that Illinois' overall economy will benefit from the  
81 long-term increase in economic activity generated by the development of western  
82 Canadian and domestic – *i.e.*, Williston Basin – oil resources. Growth in those areas will,  
83 and does, redound to Illinois entities, such as Caterpillar, that supply goods and services  
84 to the petroleum-production market. It has been estimated, reasonably I think, that the  
85 creation of every two jobs in the Canadian petroleum-production industry in Alberta  
86 creates another job in the United States and that further Canadian oil-sands development  
87 could grow U.S. jobs related thereto from about 20,000 in 2011 to over 400,000 by 2035  
88 (Canadian Energy Research Institute, "Economic Impacts of New Oil Sands Projects in  
89 Alberta (2010-2035)," May 2011). Given the volume of economic activity between  
90 Illinois and Canada, Illinois will surely get its share of that growth.

91 Q. HOW IS ILLINOIS BENEFITTED IF CRUDE OIL NEEDED FOR REFINERIES IN  
92 PADD II IS DIVERTED TO THE GULF COAST AND/OR EXPORTED TO OTHER  
93 COUNTRIES?

94 A. The assertions that crude oil to be carried by the FSP line is somehow "diverted" or  
95 intended for export have no basis in fact. The petroleum production that producers want  
96 to move is incremental supply that is becoming available and requires incremental  
97 pipeline capacity. Canadian and domestic production will displace and/or supplement  
98 crude from sources such as the Middle East and Venezuela (from which supply has been  
99 dwindling) that are less secure and friendly to the U.S., which is a substantial benefit in

100 and of itself. Nor is it reasonable to speculate that crude oil moved by Enbridge's new  
101 facilities will be exported (Enbridge of course is only a transporter, a common carrier; it  
102 neither owns nor controls the disposition of liquids it carries). Very little crude oil is  
103 exported from the United States; only about a 0.3% of gross supply was exported in  
104 2011. Furthermore, crude oil cannot be exported without a license from the Commerce  
105 Department. It is true that refined products are exported but such transactions do not and  
106 will not impair domestic supplies and in fact they contribute to the overall growth and  
107 well-being of the U.S. economy.

108 Q. WILL THE FSP PIPELINE INCREASE "GREENHOUSE" GASES AND OTHER  
109 ENVIRONMENTAL IMPACTS FROM PETROLEUM PRODUCTION?

110 A. No. Canada will continue to increase its production whether or not FSP is built and the  
111 oil will move someplace, probably to markets, *e.g.*, Asia, where the environmental impact  
112 will be greater. Moreover, Canada is a leader in environmental protection and, of the top  
113 five (5) countries from which we import crude oil, the only one with regulations on  
114 greenhouse gases and a record of improvement in the field. It is important to note as well  
115 that emissions from petroleum from the Alberta oil sands is comparable on a life-cycle  
116 basis to other average crudes refined in this country. And, on a local note, I suggest that  
117 the use by Enbridge of existing ROW corridors for this new pipeline is a positive factor.

118 Q. DOES THAT COMPLETE YOUR TESTIMONY?

119 A. Subject to any request by Enbridge or the Commission to supplement my statement or  
120 provide reply testimony, it does.

**Attachment A**

**ENBRIDGE PIPELINES (ILLINOIS) L.L.C.**

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**ILLINOIS COMMERCE COMMISSION**

**DOCKET NO. 07-0446**

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*Corrected* **TESTIMONY OF**  
**JOHN C. BELMY**  
**CHIEF ECONOMIST**  
**AMERICAN PETROLEUM INSTITUTE**

**April 7, 2008**

*API Ex. 1*

1 TESTIMONY OF

2 JOHN C. FELMY

3 CHIEF ECONOMIST

4 AMERICAN PETROLEUM INSTITUTE

5  
6 1Q. PLEASE STATE YOUR NAME, PRESENT POSITION, AND BUSINESS ADDRESS.

7 A. My name is John C. Felmy. I am Chief Economist for the American Petroleum Institute.  
8 My business address is 1220 L Street, NW, Washington, D.C. 20005.

9  
10 2Q. WOULD YOU BRIEFLY DESCRIBE FOR THE RECORD YOUR EDUCATIONAL  
11 AND PROFESSIONAL BACKGROUND?

12 A. In 1975 I received a B.A., Economics from Pennsylvania State University. I was  
13 inducted as a member of Phi Beta Kappa and received ~~the~~ Honors in Economics and  
14 Debate. In 1978, I received an M.A. in Economics from ~~the~~ Pennsylvania State University.  
15 In 1987, I received a Ph.D. in Economics from ~~the~~ University of Maryland. Since 2000,  
16 I have been the Chief Economist for the American Petroleum Institute. Prior to coming  
17 to API, I worked in the fields of energy economics and analysis with other organizations,  
18 including Princeton Economic Research, Inc., Coopers & Lybrand, and ICF Kaiser  
19 Consulting, Inc.

20  
21 3Q. WHAT ARE YOUR DUTIES AS CHIEF ECONOMIST, AMERICAN PETROLEUM  
22 INSTITUTE (API)?

23 A. I am responsible for overseeing economic, statistical and policy analysis

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4Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

A. My testimony addresses why API believes that new pipeline infrastructure to transport Canadian oil into the United States is important.

5Q. CAN YOU BRIEFLY EXPLAIN API'S PURPOSE AND OPERATION?

A. Such matters are discussed in the petition for leave to intervene but I will give a brief summary. API is a nationwide, non-profit, trade association headquartered in Washington, D.C., that represents about 400 members engaged in all aspects of the petroleum and natural gas industry. API members transport hazardous liquids as defined by 49 CFR Part 195, such as crude oil, refined petroleum products, natural gas liquids, and CO<sub>2</sub>. API members include pipelines that transport crude oil from production and import points to refineries and chemical plants as well as pipelines that transport the refined products produced in those refineries and plants to end users and distributors (retailers, wholesalers, airports, railroads, etc.). Because of the existing presence of <sup>Oil</sup> and gas industry infrastructure in Illinois, API has a state division, the Illinois Petroleum Council ("IPC"), that represents members throughout the State of Illinois that are involved in all aspects of the oil and natural gas industry, including pipeline operations. The oil pipeline industry is committed to providing reliable service to American consumers. Crude oil and the products derived from it -- gasoline, diesel, heating fuels, jet fuel, and raw materials for manufacturing -- are the lifeblood of the U.S. economy and our mobile and independent American life. Pipelines are vital to America's security. The industry's

46 commitment to reliable service is built on a commitment of stewardship for the vast  
47 national network of oil pipelines.

48  
49 **6Q. WHY DOES API SUPPORT ENBRIDGE'S APPLICATION?**

50 A. Major new pipeline expansions will help ensure U.S. refineries have secure access to the  
51 growing supplies of crude oil produced in North America -- and in particular from  
52 growing Canadian supply sources. In 2005, two major hurricanes disrupted the flow of  
53 crude oil from the U.S. Gulf, with the adverse impact on our economy and oil industry.  
54 The effect of 2005 hurricanes underscores the need for diversifying sources of crude oil  
55 supplies for U.S. refiners and the impacts that such disasters can have on markets beyond  
56 the immediate impact zone of the event. Public officials at all levels of government have  
57 asked the oil and natural gas industry to invest in American refineries, produce more  
58 motor fuels to meet market demand, and take steps to improve energy security.  
59 According to the U.S. Energy Information Administration, our nation's primary energy  
60 demand in 2030 will be 19% higher than 2006 levels. To meet this growing demand,  
61 U.S. consumers need more supplies of all energy sources, including oil and natural gas.  
62 Additional alternative energy sources like ethanol and other renewable fuels cannot  
63 satisfy this growing demand alone.

64 **7Q. WHY IS THAT IMPORTANT TO ILLINOIS AND THE UNITED STATES?**

65 A. Canadian oil makes the United States more energy secure. Coming from a close ally and  
66 economic partner, it is a reliable and plentiful resource to meet our nation's growing  
67 energy demand. And second, Canadian oil will provide greater fuel supply reliability for  
68 the Midwest and reduce the risk of supply disruptions to consumers. Canada is the

69 United States' number one supplier of oil and natural gas. About half of the crude oil  
70 brought into this country from our friends to the north is derived from oil sands. Canada  
71 sends more than 99% of its oil exports to the United States, the bulk of which goes to  
72 Midwestern refineries. Canadian oil reserves are vast and production is expected to rise  
73 enough in the next few years to help meet the expected growth in U.S. oil demand.

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75 8Q. HOW WILL ENBRIDGE'S EXTENSION PIPELINE PROJECT CONTRIBUTE TO  
76 SUCH ENDS?

77 A. Pipeline companies are investing to build new infrastructure to transport Canadian oil  
78 into the United States. By getting more oil from Canada, Midwest refineries would move  
79 from being at the back of the crude supply line to the front. Using more of this nearby,  
80 reliable supply should make Illinois and Midwest refineries less vulnerable to supply  
81 disruptions caused by geopolitical upheaval or storms in the Gulf of Mexico. Power  
82 outages suffered in the wake of Hurricanes Katrina and Rita resulted in disruptions of  
83 crude supply shipped via pipeline from the Gulf and left Midwestern refineries  
84 dangerously close to running out of crude oil to keep production going. A reliable,  
85 alternative, and nearby source of oil lessens this vulnerability in the future. Although  
86 there are many factors that play into the market cost of petroleum products in Illinois and  
87 across the country, an increase in supply and supply flexibility from a secure, reliable  
88 source like Canada can only help market conditions in Illinois and the Midwest. And that  
89 supply can only be accessible to Midwest refineries with the construction of additional  
90 pipeline capacity.

91

92 9Q. CAN YOU SUMMARIZE API'S POSITION?

93 A. The members of the U.S. oil and natural gas industry are subject to numerous state and  
94 federal regulations as they strive to meet the growing consumer demand for such  
95 products. Since 1990, the industry has invested more than \$148 billion toward improving  
96 the environmental performance of its products, facilities, and operations. Canadian oil  
97 makes our nation more energy secure and provides greater fuel supply reliability for  
98 Midwestern consumers. Without the proper local and State support, efforts to provide  
99 reliable service to consumers are halted or delayed and impaired. API urges  
100 consideration of the importance of pipeline transportation systems to consumers  
101 nationally and in Illinois as Enbridge's application is reviewed.

102

103 10Q. WHAT COULD BE THE CONSEQUENCES IF ENBRIDGE'S APPLICATION IS  
104 DENIED?

105 A. By constraining new pipeline capacity for moving Canadian crude oil, Canadian  
106 producers may not be as readily able to supply crude to the important pipeline hub at  
107 Patoka, thereby negatively impacting crude supply, which could have an impact on  
108 Illinois and Midwestern refiners. As a result, Canadian producers could well be forced to  
109 build (or increase) pipeline capacity to the west coast of Canada and export their crude  
110 output to China and/or other Asian countries. This would only result in an increase in  
111 reliance by Illinois and Midwestern refiners on crude supplies from less stable and secure  
112 sources and less friendly countries.

113

114 11Q. WHO WOULD BENEFIT IN SUCH A SITUATION?

115 A. Certainly not the petroleum-using public in Illinois and surrounding states. If anyone,  
116 consumers in such foreign countries would receive the benefits of the Canadian  
117 production.

118

119 120. DOES THAT COMPLETE YOUR TESTIMONY?

120 A. Yes.